

STATE OF ALABAMA  
DEPARTMENT OF INSURANCE  
MONTGOMERY, ALABAMA

REPORT OF  
EXAMINATION  
OF  
**JORDAN FUNERAL & INSURANCE COMPANY, INC.**  
CENTRE, ALABAMA

AS OF  
DECEMBER 31, 2004

## TABLE OF CONTENTS

	<u>Page</u>
<b>EXAMINER AFFIDAVIT</b> .....	iii
<b>SALUTATION</b> .....	1
<b>SCOPE OF EXAMINATION</b> .....	2
<b>ORGANIZATION AND HISTORY</b> .....	3
<b>MANAGEMENT AND CONTROL:</b>	
Stockholders .....	3
Board of Directors .....	4
Officers .....	5
Committees .....	5
Conflict of Interest .....	5
<b>CORPORATE RECORDS</b> .....	6
<b>HOLDING COMPANY AND AFFILIATE MATTERS:</b>	
Holding Company Registration .....	6
Dividends to Stockholders .....	6
Organizational Chart .....	7
Transactions and Agreements with Affiliates .....	8
<b>FIDELITY BOND AND OTHER INSURANCE</b> .....	9
<b>EMPLOYEE AND AGENTS WELFARE</b> .....	9
<b>SPECIAL DEPOSITS</b> .....	10
<b>FINANCIAL CONDITION/GROWTH OF THE COMPANY</b> .....	10
<b>MARKET CONDUCT ACTIVITIES:</b>	
Territory .....	11
Plan of Operation .....	11
Complaint Handling Practices .....	12
Marketing and Sales .....	12
Compliance to Agents' Licensing Requirements .....	13
Policy Forms and Underwriting Practices .....	13
Claim Payment Practices .....	14

Privacy Policies and Practices .....	17
<b>ACCOUNTS AND RECORDS .....</b>	<b>18</b>
<b>FINANCIAL STATEMENTS INDEX .....</b>	<b>20</b>
<b>NOTES TO FINANCIAL STATEMENTS .....</b>	<b>23</b>
<b>CONTINGENT LIABILITIES AND PENDING LITIGATION .....</b>	<b>31</b>
<b>COMPLIANCE WITH PREVIOUS RECOMMENDATIONS.....</b>	<b>31</b>
<b>COMMENTS AND RECOMMENDATIONS .....</b>	<b>33</b>
<b>SUBSEQUENT EVENTS .....</b>	<b>39</b>
<b>CONCLUSION .....</b>	<b>40</b>

**STATE OF ALABAMA**

**COUNTY OF CHEROKEE**

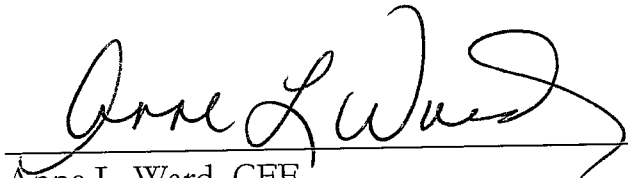
Anne L. Ward, being first duly sworn, upon her oath deposes and says:

THAT she is an examiner appointed by the Commissioner of Insurance for the State of Alabama;

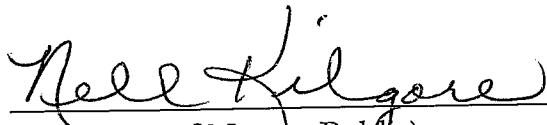
THAT an examination was made of the affairs and financial condition of *JORDAN FUNERAL & INSURANCE COMPANY*, Centre, Alabama, for the period of January 1, 2002 through December 31, 2004;

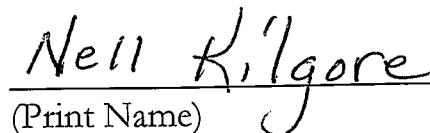
THAT the following 40 pages constitute the report thereon to the Commissioner of Insurance of the State of Alabama;

AND THAT the statements, exhibits and data therein contained are true and correct to the best of her knowledge and belief.

  
\_\_\_\_\_  
Anne L. Ward, CFE  
(Examiner-in-Charge)

Subscribed and sworn to before the undersigned authority this 11<sup>th</sup> day of August, 2006.

  
\_\_\_\_\_  
(Signature of Notary Public)

  
\_\_\_\_\_  
(Print Name) Notary Public

in and for the State of Alabama

My Commission expires Dec. 1, 2006.



BOB RILEY  
GOVERNOR

STATE OF ALABAMA  
DEPARTMENT OF INSURANCE  
201 MONROE STREET, SUITE 1700  
POST OFFICE BOX 303351  
MONTGOMERY, ALABAMA 36130-3351  
TELEPHONE: (334) 269-3550  
FACSIMILE: (334) 241-4192  
INTERNET: [www.aldoi.gov](http://www.aldoi.gov)

WALTER A. BELL  
COMMISSIONER  
DEPUTY COMMISSIONER  
D. DAVID PARSONS  
CHIEF EXAMINER  
RICHARD L. FORD  
STATE FIRE MARSHAL  
EDWARD S. PAULK  
GENERAL COUNSEL  
REYN NORMAN  
RECEIVER  
DENISE B. AZAR  
PRODUCER LICENSING MANAGER  
JIMMY W. GUNN

August 11, 2006

Honorable Walter A. Bell  
Commissioner of Insurance  
State of Alabama Department of Insurance  
201 Monroe Street, Suite 1700  
Montgomery, AL 36104

Dear Commissioner:

Pursuant to your authorization and in compliance with the statutory requirements of the State of Alabama and the resolutions adopted by the National Association of Insurance Commissioners, a full scope financial and market conduct examination as of December 31, 2004, has been made of the affairs and financial condition of

**JORDAN FUNERAL & INSURANCE COMPANY**

at its home office located at 275 Cedar Bluff Road, Centre, Alabama 35960. The report of examination is submitted herewith.

Where the description "Company" or "Jordan" appears herein, without qualification, it will be understood to indicate *Jordan Funeral & Insurance Company*.

## SCOPE OF EXAMINATION

The Company was last examined for the three-year period ended December 31, 2001, by examiners from Alabama representing the National Association of Insurance Commissioner's (NAIC) Southeastern Zone. The current examination covers the intervening period from the date of the last examination through December 31, 2004, and was conducted by examiners from the Alabama Department of Insurance (ALDOI).

A combined financial and market examination was authorized pursuant to the instructions of the Alabama Insurance Commissioner and in accordance with the statutory requirements of the *Alabama Insurance Code* and the ALDOI's regulations and bulletins; in accordance with the applicable guidelines and procedures promulgated by the NAIC; and in accordance with generally accepted examination standards and practices in connection with the verification of assets and determination of liabilities.

The examination included an inspection of corporate records, test checks of recorded income and disbursement items for selected periods, a general review of records and files pertaining to operations, administrative practices, and compliance with statutes and regulations. Assets were verified and valued and all known liabilities were established or estimated as of December 31, 2004, as shown in the financial statements contained herein. However, the discussion of specific assets or liabilities contained in this report is confined to those items where a change was made by the examiners, or which indicated violation of the Alabama Insurance Code and the ALDOI's rules and regulations or other insurance laws or rules, or which were deemed by the examiners to require comments or recommendations.

A copy of the filed Annual Statement for the year 2004 was compared with or reconciled to account balances with respect to ledger items.

The market conduct review consisted of a review of the Company's territory; plan of operation; complaint handling; marketing and sales; compliance to agents' licensing requirements; policyholder services; underwriting and rating practices; claim payment practices; and privacy policy and practices.

The Company's accounts were audited by Hullett, Kellum & McKinney, P.C., Certified Public Accountants (CPAs), for each of the three years under examination. Audit reports and workpapers were made available to the examiners and were used where deemed appropriate in the completion of this examination.

A signed certificate of representation was obtained during the course of the examination. In this certificate, management attested to having valid title to all assets and to the non-existence of unrecorded liabilities as of December 31, 2004.

## ORGANIZATION AND HISTORY

The Company was incorporated under the laws of the State of Alabama, and the *Articles of Incorporation* were filed for record in the office of the Judge of Probate of Cherokee County, Alabama, on August 17, 1937. According to the articles, the object and purpose for which the corporation was organized was "to do business as a Mutual Aid Benefit and Industrial Company or Association." The main purpose of the corporation is "to make and issue policies, contracts or agreements of insurance or burial..."

The total amount of capital stock with which the Company began business was \$5,000, divided into one hundred shares of the par value of \$50 per issue. Several changes have occurred since incorporation.

On January 10, 1977, the Company's paid-up capital was increased to \$25,000, in order to comply with ALA. CODE § 27-30-6 (1975), which increased the minimum capital requirements for mutual aid companies. In 1980, capitalization was amended to 1,000 shares of \$50 par value common stock, totaling \$50,000.

In 1984, ALA. CODE § 27-30-6.1 (1975), authorized mutual aid associations to increase paid-in capital stock and paid-in surplus to \$100,000. The *Articles of Incorporation* were amended again on October 21, 1992, increasing the authorized number of shares to 2,000, with a par value of \$50 per share.

At the December 31, 2004 examination date, the Company's Annual Statement reflected outstanding *Common capital stock* of \$100,000, consisting of 2,000 shares of \$50 par value common stock; and \$236,341 in *Unassigned funds (surplus)*.

## MANAGEMENT AND CONTROL

### Stockholders

The Company is a stock corporation with ultimate control vested in its stockholders. At the examination date, the ultimate controlling person was Clara Ben Jordan, who owned 546  $\frac{2}{3}$  shares (or 27.33%) of the authorized and issued shares. Three other individuals owned ten percent or more, of the shares. This information was detailed in *Schedule Y - Part 1*, of the 2004 Annual Statement, as shown in the Organizational Chart on page 7, of this report.

At December 31, 2004, one hundred percent of the Company's issued and outstanding common stock was owned by individual stockholders. No one person owned more than 28 percent of the outstanding shares.

### **Board of Directors**

The Company's By-Laws provided that a Board of Directors shall manage its business and affairs. Article III of the Amended Corporate By-Laws, adopted in 1992, set the number of directors at "not less than seven (7) nor more than ten (10), the exact number of which shall be fixed by the shareholders."

The members elected to the Board of Directors by the stockholders and serving at December 31, 2004, were as follows:

<u>Director/Residence</u>	<u>Principal Occupation</u>
Mary Jordan Walden Centre, Alabama	Jordan Funeral & Insurance Company, Inc. President
David Johnson Centre, Alabama	Bama Green Wholesale Nursery Owner
Clara Ben Jordan * Centre, Alabama	Homemaker
Hugh Lowe (Jay) Jordan, Jr. Centre, Alabama	Self-employed
Jeff Thomas Jordan Centre, Alabama	Self-employed
Glenda Sharon Jordan Centre, Alabama	Sharon's Beauty Shop Owner/Beautician
Ralph Meade Centre, Alabama	Retired Real Estate

\* Deceased subsequent to the examination period.



## Officers

On November 29, 2004, the following officers were re-elected to their respective positions by the Board of Directors, and were serving at the examination date:

### Officer

### Title

Mary Jordan Walden

President

Hugh Lowe (Jay) Jordan, Jr.

Vice President and Chairman of the Board

David Johnson

Secretary and Treasurer

## Committees

The only committee designated by the Board of Directors during the examination period was the Loan Committee. The committee meets periodically to discuss and recommend investment loans to the Board of Directors. Minutes recommending these loans were attached to the Board of Directors' minutes, where the loan applications were considered for approval. (See "Note 1 – Mortgage loans: First liens" on page 23 of this report for disclosure information regarding some mortgage loans that were not approved by the Board of Directors.)

The following members were appointed by the Board on March 20, 2003, and were serving at December 31, 2004:

- Hugh Lowe (Jay) Jordan, Jr.
- David Johnson
- Mary Jordan Walden

Other than in 2003, there was no evidence in the corporate minutes indicating that the Board of Directors appointed members to the Loan Committee during the three-year examination period.

## Conflict of Interest

Item #14 of the 2004 Annual Statement's *General Interrogatories* reported that the Company has an established procedure for disclosure to the Board of Directors of any material interest or affiliation on the part of its officers, directors, trustees or responsible employees. The Company does not have a formal, written conflict of interest policy; however, it has been the Company's policy to require that each of its officers and directors sign an annual statement regarding conflicts of interest.

A review of the statements signed during the examination period indicated that no material conflicts had been reported.

## **CORPORATE RECORDS**

The Company's Articles of Incorporation and By-Laws and amendments thereto were inspected during the course of the examination and appeared to provide for the operation of the Company in accordance with usual corporate practice and applicable statutes and regulations. There were no amendments during the three-year examination period.

Minutes of the meetings of the stockholders, Board of Directors and Loan Committee were reviewed for the period under examination. The minutes appear to be complete with regard to actions taken on matters before the respective bodies for deliberation and action, except as noted otherwise in this report.

## **HOLDING COMPANY AND AFFILIATE MATTERS**

### **Holding Company Registration**

The Company is deemed to be subject to the *Alabama Insurance Holding Company System Regulatory Act* as defined in ALA. CODE § 27-29-1 (1975). In connection therewith, the Company was registered with the Alabama Department of Insurance as Registrant of an Insurance Holding Company System. Appropriate filings required under the Holding Company Act were made from time to time by the Company. A review of the Company's filings during the period under review indicated that all required disclosures were included in the Company's filings.

During the review of the *Annual Registration Statement* filings, it was noted that the Company maintained copies of these filings but none of the Form Bs were dated and signed by the President. The Form C filings were dated but not signed. ALA. CODE § 27-27-29(a) (1975) requires that:

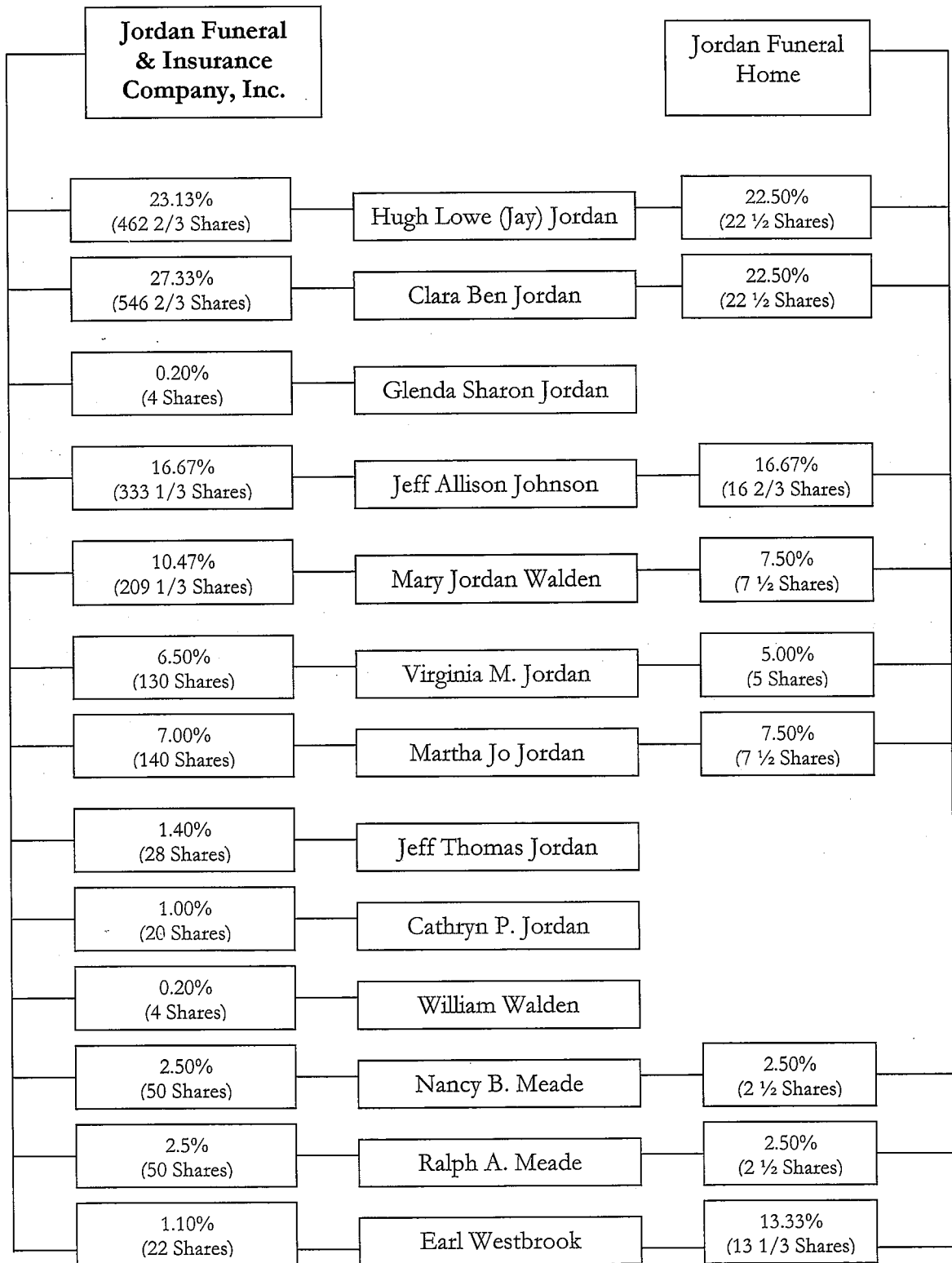
"Every domestic insurer shall have, and maintain...complete records of its assets, transactions and affairs in accordance with such methods and systems as are customary or suitable as to the kind, or kinds, of insurance transacted."

### **Dividends to Stockholders**

The Company did not pay dividends to its stockholders during the period covered by this examination.

## Organizational Chart

The following chart presents the identities of and interrelationships among all affiliated persons within the Holding Company System at December 31, 2004:



## Transactions and Agreements with Affiliates

During the previous examination, a document was presented to the examiners as the Company's management and services agreement with the affiliated Jordan Funeral Home. The "agreement" is an undated memorandum "TO WHOM IT MAY CONCERN," which states, in part:

"Jordan Funeral Home furnishes office space for Jordan Funeral & Insurance Company at no charge. The Insurance Company answers the phone for the Funeral Home if they are out."

The "Management, Service Contracts, Cost Sharing Arrangements" section of the Company's Annual Statement's *Notes to Financial Statements*, stated:

"[t]he Company paid Jordan Funeral Home \$0 for office rent, supplies, and utilities. Jordan Funeral Home provides office space, data processing equipment, and software at their location to Jordan Funeral and Insurance Company at no charge and in turn the bookkeeper at Jordan Funeral and Insurance Company provides payroll services each month at no charge."

Section 17, of *SSAP No. 25*, of the NAIC's Accounting Practices and Procedures Manual, requires the Company to disclose, among other things, the nature of the relationship involved, "even though there are no transactions between the enterprises."

While the arrangement was disclosed in the annual Registration Statements filed during the examination period, no evidence was provided by the Company that indicated that a contract had been submitted to the Alabama Department of Insurance in accordance with ALA. CODE § 27-29-5(a) (1975), which states that all management agreements, service contracts, and cost sharing arrangements "may not be entered into unless the insurer has notified the commissioner in writing of its intention to enter into such transaction at least 30 days prior thereto...and the commissioner has not disapproved it within that period."

The previous two examinations have recommended that the Company define existing arrangements with its affiliate by executing a written agreement in accordance with the aforementioned section of the *Alabama Insurance Code*. The Company did not comply with those recommendations.

## **FIDELITY BONDS AND OTHER INSURANCE**

At the previous examination date, the Company maintained a \$100,000 fidelity bond for protection against dishonest or fraudulent acts by officers or employees. The bond lapsed in November 2002, and was not renewed during the examination period.

According to the NAIC's Financial Condition Examiners Handbook, the minimum amount of suggested coverage should be between \$25,000 and 50,000.

### **Other Insurance**

The Company owns no real estate or property, does not provide health or life insurance to its employees, and did not maintain any other insurance policies during the examination period.

## **EMPLOYEE AND AGENTS WELFARE**

The Company provided the following benefits for its employees during the three-year examination period:

- Vacation Leave
- Sick Leave
- Paid Holidays.

### **Compliance with ALA. ADMIN. CODE 482-1-122 (2003)**

The Company is required to comply with the Violent Crime Control and Law Enforcement Act of 1994, US Code, Title 18, Section 1033 (e)(1)(A), which, in part, prohibits individuals who have been convicted of specified criminal activity from engaging in the business of insurance without the written consent from the Commissioner of Insurance.

The Company does not have any formal policy for monitoring current employees as there are only two (the President and an Administrative Secretary). ALA. ADMIN. CODE 482-1-121 (2003), Guideline 1, states that "failure to initiate a screening process in an attempt to identify prohibited persons in current or prospective employment relationships may be a factor in determining if a violation of this statute has occurred."

When this matter was discussed with management, the President indicated that something would be added to the Company's conflict of interest statement so that annual

certification can be obtained from officers, directors and employees. In order to qualify for annual license renewal, the Company's field force is required to complete a question on the Alabama Department of Insurance's Producer License Renewal Form, which asks "Have you EVER been charged with or convicted of a felony or misdemeanor?"

### **SPECIAL DEPOSITS**

In order to comply with the statutory requirements for doing business in the state in which it is licensed, the Company had the following securities on deposit with the Alabama State Treasurer at the December 31, 2004, examination date:

<b><u>Description</u></b>	<b><u>Par Value</u></b>	<b><u>Statement Value</u></b>	<b><u>Market Value</u></b>
5% Certificate of Deposit, with Union State Bank, Pell City, Alabama; dated 05/13/1993; due 05/13/1998; auto-renews every five years.	\$10,000	\$10,000	\$10,000
3% Certificate of Deposit, with Union State Bank, Centre, Alabama; dated 13/30/2003; due 12/30/2008.	<u>6,000</u>	<u>6,000</u>	<u>6,000</u>
<b>Total Deposit</b>	<b><u>\$16,000</u></b>	<b><u>\$16,000</u></b>	<b><u>\$16,000</u></b>

Confirmation of these deposits was obtained directly from the issuers and the Alabama State Treasurer's office.

### **FINANCIAL CONDITION/GROWTH OF THE COMPANY**

The following table sets forth the significant items indicating the growth and financial condition of the Company for the period under review:

	<b><u>Admitted Assets</u></b>	<b><u>Liabilities</u></b>	<b><u>Capital and Surplus</u></b>	<b><u>Premiums Earned</u></b>
2004*	\$ 1,702,645	\$ 1,411,304	\$ 291,341	\$ 80,564
2003	1,766,314	1,375,691	390,623	90,009
2002	1,712,911	1,343,324	369,587	88,196
2001*	1,803,455	1,442,039	361,416	86,697

**\*Per Examination**

## **MARKET CONDUCT ACTIVITIES**

### **Territory**

The Company was licensed to transact business only in the State of Alabama. The Certificate of Authority is perpetual, renewed annually by the Alabama Department of Insurance. The certificate, and relevant documentation, was inspected for the three-year examination period and appeared to be in order.

There were no pending applications at the December 31, 2004 examination date.

### **Plan of Operation**

At December 31, 2004, the Company marketed its products through a Home Service distribution system. The Company's sales organization consisted of an agency sales and service field force, which is responsible for the marketing and servicing of its industrial life products. In order to sell insurance and collect premiums, agents are assigned territories called "debits," where customers are contacted at their homes. Most of the Company's business is concentrated within the geographical region of Northeast Alabama.

The Company's agency organization consisted of five debits serviced by seven agents. The agents are based at the Home Office and are directly responsible to the Company's President, who is also a licensed agent. Producers are paid a salary, plus a commission based upon renewals and the sale of new business. The majority of new business is solicited by word-of-mouth, referrals from current customers, and recommendations from friends and family.

It was noted that net premium remained fairly consistent throughout the three-year examination period, but declined by 10.5% between 2003 and 2004. Following up to the 2005 Annual Statement, premium income continued to deteriorate by an additional 7.8%. When this matter was discussed with Company management, the President indicated that management has been aware of the decline in premium income and is in the process of revitalizing the field force in order to increase productivity.

Throughout the examination period, the Company reported negative net income. The President stated that for the past couple of years, many of the mortgage loans were delinquent, and the Company's common stocks portfolio was not generating sufficient income. Subsequent to the examination date, many of the unprofitable stock issues were sold and mutual funds were purchased. After management took a firm stand on timely loan payments, most of those in arrears are now up-to-date. Several of the loans have

been sold, transferred or paid in full. It is management's intention to insure that all investments continue to produce a more profitable income.

### **Complaint Handling Practices**

According to documentation maintained in the Consumer's Division of the Alabama Department of Insurance, the Company had no complaints against it during the three-year examination period. Company records indicated the same.

### **Marketing and Sales**

The Company does not have a formal advertising program or budget. During the examination period, the Company supported several local community organizations by purchasing a few small printed advertisements and airing radio spots. Some novelty items, such as calendars, litterbags, pens, potholders, etc., were distributed by the Company and its agents for name recognition purposes.

### **Advertising file**

The Company did not maintain an advertising file during the three-year examination period. The Company was required to maintain such a file "for a period of either four years or until the filing of the next regular report on the examination of the insurer..." in accordance with Section VII of Alabama Department of Insurance *Regulation No. 69*. This regulation was repealed, effective January 1, 2005, and replaced by Ala. Admin. Code 482-1-132 (2005) [*Advertisements of Life Insurance and Annuities Regulation*]. Section .10(1) of this regulation requires:

"Each insurer shall maintain at its home or principal office a complete file containing a specimen copy of every printed, published or prepared advertisement of its individual policies and specimen copies of typical printed, published or prepared advertisements of its blanket, franchise and group policies, hereafter disseminated in this state, with a notation indicating the manner and extent of distribution and the form number of any policy advertised. The file shall be subject to inspection by the department. All advertisements shall be maintained in the file for a period of five (5) years after discontinuance of its use or publication."

### **Advertising Certificate of Compliance**

During the three-year examination period, the Company was subject to Alabama Department of Insurance *Regulation No. 69, Section VII (2)*, which required the Company to file an advertising certificate of compliance with its Annual Statement. The Company did not do so. This regulation was repealed on January 1, 2005, and replaced with Ala. Admin. Code 482-1-132 (2005). Section .10(3) of this regulation requires:



"Each insurer subject to the provisions of this chapter shall file with the commissioner with its annual statement a certificate of compliance executed by an authorized officer of the insurer stating that to the best of his or her knowledge, information and belief the advertisements that were disseminated by or on behalf of the insurer in this state during the preceding statement year, or during the portion of the year when these rules were in effect, complied or were made to comply in all respects with the provisions of these rules and the insurance laws of this state as implemented and interpreted by this chapter."

Although the Company participated only in limited name recognition type advertising, copies of advertisements should be maintained and a certificate of compliance filed with the Annual Statement in accordance with the aforementioned regulation.

### **Compliance to Agents' Licensing Requirements**

An inspection of Company records was conducted in order to determine that producers representing the Company were appropriately appointed. A register of licensed agents was obtained from the Agents' Licensing Division of the Alabama Department of Insurance and compared to a current list of agents provided by the Company. The review determined that each agent was properly licensed and appointed by the Company.

At December 31, 2004, the Company appointed seven agents to sell its products. Only licensed and appointed producers were used to sell its policies in Alabama, the only state in which the Company was licensed to conduct business.

### **Policy Forms and Underwriting Practices**

The Company writes industrial type life insurance. Because of the small face amounts written, there is minimal underwriting done by the Company. According to the Company's President, this type of business has higher mortality and lapse rates than other types of life insurance. The Company prices its insurance products taking into account these mortality and lapse rates.

The Company does not have an underwriting manual or formal underwriting process. Information obtained from the applicant is used to calculate the correct premium. The Company does not require motor vehicle reports, credit reports, medical documentation, or other underwriting information as a basis for determining the premium. Company personnel verify that the rates charged for the policy coverage are in accordance with filed rates for the specific policy selected. The application is reviewed by management for completeness, accuracy and signature. The President indicated that all applications are handled consistently, and all applicants are considered based on information provided.

During the three-year examination period, no new policy forms were introduced. The Company issued the following types of insurance products:

- Whole Life, ages 1 year through 70 years;
- 15-Year Pay Life, ages 1 year through 70 years;
- 15-Year Pay Life, ages 1 year through 70 years, with double indemnity;
- 10-Year Pay Whole Life, ages 1 year through 70 years, with double indemnity; and
- Modified 3-Year Whole Life.

All of these policies were written for a minimum face value of \$300, to a maximum of \$5,000, which is in compliance with ALA. CODE §§ 27-30.6.1 and 27-30-15(c) (1975), with regards to policy limits. These sections of the *Alabama Insurance Code* define the requirements whereby the Company is authorized to write up to \$5,000 (or five percent of its \$100,000 capital) on any one life, and accidental death benefits not to exceed the amount of life insurance.

### **Claims Payment Practices**

A selected number of claims files were reviewed in order to evaluate the Company's compliance with policy provisions, timeliness of payment, adequacy of documentation and reserving. In accordance with the sampling methods in the NAIC's Market Conduct Examiners Handbook, sample sizes were limited to 50 and 100 items, contingent on the population of specific files.

The Company maintains two claims registers, one each for industrial burial/vault and life policies. Fifty claims were selected from the three-year examination period, including several reported and paid subsequent to the examination period.

### **Reporting discrepancies**

In order to determine the population of the claims paid during the examination period, the Company's claims registers for 2002 - 2004 were reviewed. The registers are not maintained in electronic format; therefore, the number of policies presented for payment were counted and the amount of insurance was totaled. The amounts were then compared to "Settlements during the year" reported in *Exhibit 8-Part 2*, and the Life Insurance exhibit (page 25) of the 2004 Annual Statement. The following conclusions were reached:

- In 2004, the Annual Statement reported \$1,084 more in paid claims and 41 fewer policies paid than the claims register.
- In 2003, the Annual Statement reported \$2,200 more in paid claims and 44 fewer policies paid than the claims register.
- In 2002, the Annual Statement reported \$1,150 less in paid claims and 13 fewer policies paid than the claims register.

The Company could not produce a claims register that reconciled to the amounts reported in the Annual Statement. However, the general ledger did tie to the Annual Statement figures, without exception. This matter was discussed with the Company's President, who indicated that it appeared that some information was unintentionally omitted from the claims registers, but the cash disbursements journal for claims paid was correct. Concerning the number count of policies presented for payment, it was determined that in compiling those figures, the number of claimants had been counted, not the number of policies.

Although none of the differences were material, and the amounts did not affect the balance sheet, the Company is not maintaining complete and accurate records of its claims transactions. ALA. CODE § 27-27-29(a) (1975) requires that the Company maintain "complete records of its assets, transactions and affairs..."

### **Claims not purged from reserve listings**

In 2002, the CPAs noted that several individuals on whom death claims had been paid out had not been removed from the life register. The CPAs recommended that the register be reviewed and purged. During the review of paid claims in this examination, it was noted that several policies were not removed from the reserve listings. Of the sample of 22 claims paid in 2005, two policies were not purged from the 2005 reserve listing. An additional sample of claims paid during the three-year examination period indicated that two were not removed from the 2004 reserve listing. All of these policies were annotated on the Company's policy history file as "dead." The Company's President did not know why the policies had not been removed from the reserve listings. Further discussion with the CPAs indicated that although the Company has had some problems with this in the past, things have improved and a lot of work has been done to improve the reserve listing. The CPAs intend to continue to test this in their annual audits.

ALA. CODE § 27-27-29(a) (1975) states that:

"Every domestic insurer shall have, and maintain, its principal place of business and home office in this state and shall keep therein complete records of its assets,

transactions and affairs in accordance with such methods and systems as are customary or suitable as to the kind, or kinds, of insurance transacted.”

### **Claims files and records documentation**

Fifty claims were reviewed in order to determine that the documentation was sufficient to justify the ultimate claim determination. The Company does not maintain claims files, per se. Documentation provided by claimants is maintained in a haphazard manner, generally in a file by month and year, and may consist of the policy and/or proof of death information. The Company considers proof of death to be a death certificate, undertaker’s statement, obituary, newspaper clipping, funeral/church program, or related notice. Based on that criterion, all of the claims selected for sampling that maintained claims documentation had appropriate proofs of death. Three claims evidenced no proof of death; however, policies were provided on each, and the information was traced to the manual Membership Roll.

Six claimants did not provide policies on the insured. Per the Company’s President, policies are often lost; sometimes, a replacement certificate is issued if requested by the insured. When a death is reported without a policy, the name is looked up on the handwritten Membership Roll and on the reserve listing to determine the issue date. Claims are paid without the hard copy of the policy.

ALA. ADMIN. CODE 482-1-124-.03(b)1. (2003), defines a claim file for life insurance and annuities are:

“The file or files containing the notice of claim, claim forms, proof of loss, medical records, correspondence to and from insureds and claimants or their representatives, claim investigation documentation, claim handling logs, copies of checks or drafts, check numbers and amounts, releases, correspondence, all applicable notices, and correspondence used for determining and concluding claim payments or denials, any written communication related to the handling of a claim, including the investigation, and any other documentation, maintained in a paper or electronic format, necessary to support claim handling activity.”

Section .03, item (j) of this regulation defines “Proof of Loss” as “Written evidence, including but not limited to claim forms, medical bills, medical authorizations, death certificates or other reasonable evidence of the claim or its circumstances that is ordinarily required by the insurer of all insureds or beneficiaries submitting the claims.”

Section .05(a) *File and Record Documentation* stipulates: “The insurer shall maintain claim files that are accessible and retrievable for examination. An insurer shall be able to provide the claim number, line of coverage, date of loss, date and amount of payment of the claim, date-of-denial or date closed without payment. The insurer shall be able to

provide the same information (except date and amount of payment) for all claims closed without payment. This data must be available for all open and closed files for the current year and the five (5) preceding years in order to permit reconstruction of the insurer's activities relative to each claim."

CLAIMS Standard 5, of the NAIC's Market Conduct Examiners Handbook requires that: "Claim files are adequately documented."

Other than the discrepancies noted above, initial contact procedures, handling and settlement of claims, and reserving methodologies appear to be in accordance with NAIC Claims Standards, as defined by the Market Conduct Examiners Handbook, policy provisions, and statutory requirements.

### **Privacy Policies and Practices**

[Compliance with ALA. ADMIN. CODE 482-1-122 (2001), formerly known as Alabama Department of Insurance *Regulation No. 122*.]

ALA. ADMIN. CODE 482-1-122 (2001), the *Privacy of Nonpublic Personal Financial Information* regulation, governs the treatment of nonpublic personal and financial information about individuals by all licensees of the Alabama Department of Insurance. This regulation requires a licensee to provide "a clear and conspicuous notice" to individuals about its privacy policies and practices; describes the conditions under which a licensee may disclose nonpublic personal financial information about individuals to affiliates and nonaffiliated parties; and provides methods for individuals to prevent a licensee from disclosing that information.

The Company's President stated that, until 2003, the Company had no such policy or procedures regarding protection and disclosure of nonpublic personal information of consumers and explained that it has always been the Company's practice to not disclose the personal information of consumers, customers and former customers. Consequently, the Company is required to supply its customers with a simplified notice under Section .7(C)(5) of ALA. ADMIN. CODE 482-1-122 (2001), which states:

"If a licensee does not disclose, and does not wish to reserve the right to disclose, nonpublic personal financial information about customers or former customers to affiliates or nonaffiliated third parties except as authorized under Sections 15 and 16, the licensee may simply state that fact, in addition to the information it shall provide under Subsections A(1), A(8), A(9), and Subsection B of this section."

At the previous examination date, the Company did not send out privacy notices to its customers. As a result of commentary in the previous examination report, the Company formulated a privacy notice and began providing it to its customers in 2003.

The Company's privacy notice contains "Our Privacy Pledge," which includes the specific requirements for simplified notices as defined by ALA. ADMIN. CODE 482-1-122 (2001). It appears that the Company safeguards its customer's personal information in compliance with the referenced regulation.

## **ACCOUNTS AND RECORDS**

The Company's principal accounting records were primarily maintained manually with some files maintained on Electronic Data Processing (EDP) equipment. Company personnel performed the daily record-keeping functions. It was noted that Hullet, Kellum & McKinney, P.C., Hoover, Alabama, the Company's Certified Public Accountants (CPAs), compiled certain accounting records and workpapers from information provided by the Company. The CPAs were responsible for the preparation of the Company's Quarterly and Annual Statements, and performed the financial audit, as well.

On September 8, 2000, the Alabama Department of Insurance granted "a permitted practice to allow the company to use the same accounting firm to conduct its annual audit that prepared the company's quarterly and annual statement. This practice is granted for so long a period of time as the accounting firm performs only those functions. Should the accounting firm become involved either in supervising the company's accounting records or preparing the accounting records, this permitted practice would be void."

The Company was audited annually by aforementioned independent CPA firm, which conducted all of the Company's audits for the three-year period covered by this examination. The audit workpapers of the opening CPA firm were made available for review and were tested and utilized in this examination where deemed appropriate.

An actuary was retained by the Company to prepare a *Statement of Actuarial Opinion*. Mr. William Lynn Townsend, FSA, MAAA, of Jackson, Mississippi, certified the reserve calculations for 2002 – 2004. It was noted that during the examination period, the Jurat pages of the Annual Statements reported Mr. Townsend as an officer and actuary. A review of the Company's corporate minutes did not indicate that Mr. Townsend had been elected or appointed as an officer or as the consulting actuary. When this matter was discussed with management, the President indicated that the actuary was never intended to be a corporate officer. However, ALA. ADMIN. CODE 482-1-112-.05(3)

(2003) defines an appointed actuary as “a qualified actuary who is appointed or retained to prepare the Statement of Actuarial Opinion required by this chapter, either directly by or by the authority of the board of directors through an executive officer of the company.”

In general, the accounting records appeared to reflect the operations during the period under review and the condition of the Company at the examination date, unless otherwise commented upon under appropriate captions, elsewhere in this report.

### **Anti-fraud initiatives**

The Company has not established any fraud initiatives to advertise, identify, investigate and report fraudulent acts. Management indicated that the Company is too small to establish a program of this nature; consequently, a fraud program is not advertised or promoted to the Company's insureds. Claim forms and applications do not advise that a person presenting a false or fraudulent claim for payment of a loss or benefit, or knowingly providing false information in an application for insurance is guilty of a crime and may be subject to fines and confinement in prison.

### **Anti-Money Laundering Requirements**

On September 18, 2002, the Financial Crimes Enforcement Network (FinCEN) of the United States Department of the Treasury released a *Notice of Proposed Rulemaking* that would implement the Anti-Money Laundering (AML) compliance program requirements in Section 352 of the “Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act” (USA PATRIOT Act). The AML contemplates that the Section 352 requirements would apply only to life insurance companies and others engaging in the issuing, underwriting, or reinsuring of life insurance, annuities, and similar products. The comment period for the AML expired on November 25, 2002. The Department of the Treasury had not promulgated a final regulation pursuant to the AML at the examination date. The International Money Laundering Abatement Act and Anti-Terrorist Financial Act of 2001, requires that all financial institutions, including insurance companies, have in place an anti-money laundering program unless specifically exempt.

The Company's President was not familiar with Federal AML requirements. She stated that there are no antifraud initiatives, and that the Company is too small to put together those kinds of guidelines. Management has no plans to implement an anti-money laundering program.

## **FINANCIAL STATEMENT INDEX**

The Financial Statements included in this report were prepared on the basis of the Company's records and the valuations and determinations made during the course of the examination for the year 2004. Amounts shown in the comparative statements for the years 2001, 2002, and 2003, were compiled from Company copies of filed Annual Statements. The statements are presented in the following order:

	<b><u>Page</u></b>
Statement of Assets, Liabilities, Surplus and Other Funds.....	21
Summary of Operations.....	22
Capital and Surplus Account.....	22

**THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTREGRAL PART THEROF.**



**JORDAN FUNERAL & INSURANCE COMPANY**  
**STATEMENT OF ASSETS, LIABILITIES, SURPLUS AND OTHER FUNDS**  
**For the Year Ended December 31, 2004**

<u>ASSETS</u>	<u>Assets</u>	<u>Nonadmitted</u> <u>Assets</u>	<u>Net Admitted</u> <u>Assets</u>
Bonds	\$ -	\$ -	\$ -
Common stocks	261,628		261,628
Mortgage loans on real estate: First liens (Note 1)	1,202,408	62,467	1,139,941
Cash, cash equivalents and short-term investments	286,043	-	286,043
Subtotal, cash and invested assets	\$ 1,750,079	\$ 62,467	\$ 1,687,612
Investment income due and accrued (Note 2)	40,108	27,370	12,738
Premium considerations:			
Uncollected premiums and agents' balances in course of collection	795		795
Current federal and foreign income tax recoverable and interest thereon (Note 3)	85,516	84,016	1,500
Net deferred tax asset (Note 4)			
Other assets nonadmitted (Note 5)	13,722	13,722	-
<b>TOTALS</b>	<b>\$ 1,890,220</b>	<b>\$ 187,575</b>	<b>\$ 1,702,645</b>
<u>LIABILITIES</u>			
Aggregate reserve for life contracts (Note 6)		\$	1,380,696
Contract claims: Life (Note 7)			-
Premiums and annuity considerations for life and accident and health contracts received in advance			3,693
General expenses due or accrued			18,380
Taxes, licenses and fees due or accrued, excluding federal income taxes			994
Amounts withheld or retained by company as agent or trustee (Note 8)			2,353
Asset valuation reserve (Note 9)			5,188
Total liabilities		\$	1,411,304
<u>CAPITAL AND SURPLUS</u>			
Common capital stock		\$	100,000
Unassigned funds (surplus) (Note 10)			191,341
Total capital and surplus		\$	291,341
Total liabilities, capital and surplus		\$	1,702,645

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTREGRAL PART THEREOF.

**JORDAN FUNERAL & INSURANCE COMPANY**  
**SUMMARY OF OPERATIONS**  
**For the Years Ended December 31, 2004, 2003, and 2002**

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Premiums and annuity considerations for life and accident and health contracts	\$ 80,564	\$ 90,009	\$ 88,196
Net investment income	75,930	58,028	74,511
Totals	<u>\$ 156,494</u>	<u>\$ 148,037</u>	<u>\$ 162,707</u>
Death benefits	\$ 67,147	\$ 51,494	\$ 56,700
Surrender benefits and withdrawals for life contracts	9,983	3,454	121
Increase in aggregate reserves for life and accident and health contracts (Note 6)	36,780	30,708	35,845
Totals	<u>\$ 113,910</u>	<u>\$ 85,656</u>	<u>\$ 92,666</u>
General insurance expenses	112,871	130,190	129,973
Insurance taxes, licenses and fees, excluding federal income taxes	8,389	6,600	7,900
Totals	<u>\$ 235,170</u>	<u>\$ 222,446</u>	<u>\$ 230,539</u>
Net gain from operations after dividends to policyholders and federal income taxes and before realized capital gains or (losses)	(78,676)	(74,409)	(67,832)
Net realized capital gains or (losses) (excluding gains (losses) transferred to the IMR) less capital gains tax	<u>\$ (7,064)</u>	<u>\$ 394</u>	<u>\$ (3,490)</u>
Net income	<u>\$ (85,740)</u>	<u>\$ (74,015)</u>	<u>\$ (71,322)</u>
<b>CAPITAL AND SURPLUS ACCOUNT</b>			
Capital and surplus, December 31, prior year	\$ 390,623	\$ 369,588	\$ 406,418
Net Income	(85,740)	(74,015)	(71,322)
Change in net unrealized capital gains (losses)	29,731	104,013	(50,019)
Change in net deferred income tax	6,557	11,212	(1,122)
Change in nonadmitted assets and related items	(50,412)	(21,688)	(614)
Change in asset valuation reserve	582	1,513	12,798
Aggregate write-ins for gains and losses in surplus	-	-	73,449
Change in capital and surplus for the year	<u>\$ (99,282)</u>	<u>\$ 21,035</u>	<u>\$ (36,830)</u>
Capital and surplus, December 31, current year	<u>\$ 291,341</u>	<u>\$ 390,623</u>	<u>\$ 369,588</u>

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTREGRAL PART THEREOF.

## **NOTES TO FINANCIAL STATEMENTS**

### **Note 1 – Mortgage loans: First liens**

**\$1,139,941**

The referenced asset is the same as was reported by the Company in its 2004 Annual Statement, and as determined by this examination.

The previous examination noted that the Company did not complete the “General Interrogatory” section of *Schedule B – Part 1*, in accordance with the NAIC’s Annual Statement Instructions, specifically concerning “Mortgages with overdue interest over 90 days and not in process of foreclosure.” During the current examination, this interrogatory still was not completed, but it was noted that the mortgage inventory evidenced six loans with interest overdue by 90 days or more; consequently, the Company did not comply with the previous recommendation on this matter.

A review of the Company’s corporate minutes indicated that the Company did not authorize, approve or ratify all of its new mortgage loans during the examination period. ALA. CODE § 27-41-5 (1975) requires that:

“An insurer shall not make any investment, loan...unless the same by authorized, approved or ratified by the board of directors of the insurer or by such committee or person as the board of directors shall expressly authorize.”

### **Note 2 – Investment income due and accrued**

**\$12,738**

The captioned asset is the same as was reported by the Company in its 2004 Annual Statement but \$144 less than the \$12,882 amount determined by this examination.

It was noted that Column 10 (Declared but Unpaid) of *Schedule D-Part 2-Section 2*, did not contain any entries. Utilizing the NAIC’s Valuations of securities (VOS) CD (Addendum 2004) for ex-dividend stocks, it was determined that \$144 in dividends for four issues of common stocks were declared prior to year-end 2004, but not paid until 2005. The \$144 should have been included in *Investment income due and accrued*; however, the amount was not material for the purposes of this examination, and no changes were made to the financial statements in this report.

### **Note 3 – Current federal and foreign income tax recoverable**

**\$-0-**

The referenced asset is \$1,500 less than the \$1,500 amount reported by the Company in its 2004 Annual Statement. When compiling the Annual Statements throughout the three-year examination period, the CPAs misclassified the *Net deferred tax asset* under this caption. The reclassification to the appropriate line did not have an effect on the

financial statements in this report. Also see "Note 4 – Net deferred tax asset," following.

A review of the Company's federal income tax returns verified that there were no federal tax recoverables during the examination period.

**Note 4 – Net deferred tax asset**

**\$1,500**

The Company did not report any amount for this asset during the examination period. As noted previously, the asset was misclassified as *Current federal and foreign income tax recoverable*. The NAIC's Annual Statement Instructions require that assets be reported under the relevant caption on the balance sheet. The \$1,500 was reclassified under this caption for the purposes of this examination. The reclassification did not have an effect on the financial statements in this report.

**Note 5 – Other assets nonadmitted**

**\$13,722**

The captioned ledger asset is the same as was reported by the Company in its 2004 Annual Statement and included the following:

- Leasehold improvements                      \$9,876
- Loans on personal security                      \$4,033.

**Leasehold improvements**

On May 8, 2003, the Company paid \$10,000 for paving the parking lot it shares with the affiliated Jordan Funeral Home. The \$9,689 balance at year-end 2004, indicated that the asset had been depreciated by \$311, over its 20 month life. Given that the asset was to be depreciated over a 15-year period (or 180 months), straight-line depreciation should have been calculated at \$55.56 per month, or a total of \$1,111.20 ( $\$55.56 \times 20$  months). As a result, the balance of the account should have been \$8,888.80 ( $\$10,000 - \$1,111.20$ ) at the examination date. It appears that the Company utilized \$15.56 per month as the depreciating amount rather than the \$55.56, as recalculated by the examiners. The \$800 difference between the reported amount and the calculated balance was not material. The *Leasehold improvements* balance was not admitted in its entirety at December 31, 2004; therefore, there was no effect on the balance sheet. However, the Company should correct its depreciation calculation so that the appropriate balance is evidenced at the statement filing date.

**Loans on personal security**

This not admitted asset consisted of the following two unsecured loans:

- The first loan included \$3,433.11 in principal and \$9,612.71 in accrued interest at the examination date. It appears that this loan originated as a mortgage loan, although there is no documentation available for review. The principal amount was not admitted in this line item. The accrued interest, paid through December 1984, was also not admitted as a part of mortgage loans in *Investment income due and accrued*. The Company's President stated that both the principal and interest on this loan will be written off as it has been obvious for quite some time that it will never be collected.
- There is no documentation to evidence the \$600 loan; however, the loan is listed as a "Policy loan" in the General Ledger. The individual who received the loan proceeds maintains an active policy, which was included in the reserve inventory at year-end 2004. The Company's President indicated that although a minimal amount has been paid on the loan subsequent to the examination period, it is unlikely that the entirety will ever be collected. Because this is a policy loan, the asset should have been reported under the "Contract loans" line item on the balance sheet in accordance with the NAIC's Annual Statement Instructions.

ALA. CODE § 27-27-29(a) (1975) states that:

"Every domestic insurer shall have, and maintain, its principal place of business and home office in this state and shall keep therein complete records of its assets, transactions and affairs..."

In addition, ALA. CODE § 27-27-30(a) (1975) stipulates that:

"No insurer shall make any disbursement of \$25.00 or more unless evidenced by a voucher or other document correctly describing the consideration for the payment and support by check or receipt endorsed or signed by, or on behalf of, the person receiving the money."

For the purposes of statutory accounting, *SSAP No. 4*, of the NAIC's Accounting Practices and Procedures Manual, stipulates that an asset must have "probable future economic benefits obtained or controlled by a particular entity as a result of past transactions or events." None of the above items provided benefit to the Company; therefore, the entirety of the reported \$13,722 amount was appropriately not admitted by the Company at the examination date.

**Note 6 – Aggregate reserve for life contracts**

**\$1,380,696**

The captioned liability is \$45,000 more than the \$1,335,696 amount reported by the Company in its 2004 Annual Statement.

During the last examination, the Company was unable to provide the opining actuary with the correct reserve determinants for certain policies. The actuarial examiner required that the Company record an additional \$45,000 to provide for those missing reserve determinants, and the referenced line item was increased accordingly. The actuarial examiner recommended that the Company be required to record an additional reserve of \$45,000, until such time as the Company is able to provide to the opining actuary the correct reserve determinants. The Company did not record such reserve adjustment until 2005.

Because the Company did not make the \$45,000 adjustment until subsequent to the examination date, *Aggregate reserve for life contracts* has been increased by \$45,000, for the purposes of this examination.

### **Estimated reserve factor**

In order to verify that the Company has established a statutory policy reserve for all unmatured contractual obligations included in the insurance contract provisions, a sample of new policies written during the three-year examination period was selected. It was noted that six new policies from 2004 were not found on the 2004 reserve listing. Per the Company's consulting actuary, the Company was not able to provide an electronic file for 2004, so the 2004 reserve listing was compiled from the 2003 inventory after eliminating cash surrenders and death claims. An estimate was derived for 2004 issues, whereby an estimated reserve factor of \$5 per \$1,000 was used and applied to new issues of \$146,000.

The actuarial examiner determined that the estimate of a mid-terminal reserve factor of \$5 per \$1,000 appears to be adequate for all issue ages based upon the Monetary Tables provided by the Society of Actuaries, and based upon 1961 CSI mortality and 3½% interest. However, as stated, the Company should provide the opining actuary with records that contain the correct issue age, issue date, face amount, and plan of insurance in order to insure that the correct reserve may be calculated for each policy in force at the valuation date.

### **Accidental death benefits**

The Company did not record all the results of the opining actuary's reserve work, specifically, the reserves for the accidental death benefits (ADB).

The reserves provided to the Company by the opining actuary agree to the reserves used by the Company in the 2004 Annual Statement, except for the reserves for ADB. The opining actuary had set up \$650 for the reserves for ADB, but the Company did not record that amount. The amount was not material for the purposes of this examination, and no changes were made to the financial statements in this report. All other results of the opining actuary were utilized.

The NAIC's Annual Statement Instructions require the Company to attach the *Statement of Actuarial Opinion*, "to page 1 of the annual statement...setting forth his or her opinion relating to contract reserves and other actuarial items." Alabama Department of Insurance *Regulation No. 98*, established "uniform requirements for manual and automated reporting of annual and quarterly statement information." By not recording all of the opining actuary's reserve amounts, the Company was not in compliance with these regulatory authorities. The Company should use all of the opining actuary's results and set up all reserves provided by the opining actuary.

### **Actuarial Opinion – Section 7 Exemption**

It was noted that the Company's opining actuary provided an actuarial opinion for 2004 that was based upon a Section 7 exemption. The State of Alabama adopted ALA. ADMIN CODE 482-1-112, *Actuarial Opinion and Memorandum Regulation*, effective January 1, 2004, that does not provide for such an exemption. The Alabama Department of Insurance's financial analyst assigned to the Company requested that the opining actuary provide a revised actuarial opinion based upon asset adequacy analysis for year-end 2005; this was furnished during the course of the examination. The actuarial examiner requested and obtained a revised actuarial opinion for year-end 2004, from the opining actuary.

### **Life Insurance Reserve Basis**

The actuarial examiner noted that the opining actuary did not base reserves for certain policies on the reserve basis stated in the policy form. The opining actuary should base reserves upon the basis stated in the policy. The opining actuary based all reserves on the AE Table with interest at 4%. Some of the policy forms state the reserve basis as 1961 CSI with interest at 3½%.

During the course of the examination, the opining actuary recomputed the 2004 reserves for those policies where the forms state the reserve basis as 1961 CSI with interest at 3½%. The actuarial examiner determined that the recomputed reserve, as compared to the recorded reserve, was reasonable. Reserves based upon AE 4%, compared to 1961 CSI 3½% differed by \$1.00 to \$1.50 per 1,000 face amount. There were no significant differences between the reserve calculations based upon AE 4% and 1961 CSI 3½%; therefore, no examination adjustment will be made. The Company has based the reserve upon an exact reserve computation and for that reason, has not recorded a minimum or maximum reserve range.

### **CPA Review of Reserves**

During the three-year examination period, CPA workpapers stated that: "No audit procedures will be performed on the reserves. The auditor relied on the actuary."

In response to the examiner's inquiries concerning why no audit procedures were performed on the opining actuary's work, and how was it determined that the reserves were fairly stated, the CPA audit manager responded that the quote wasn't totally accurate. The CPAs test what the Company provides to the actuary, making sure that all policies are included and the information related to the policies (name, age, etc.) are correct. Policies that are paid out, cashed in or lapsed are tested to insure they are removed from the reserve listing, and "[w]e review the report and some of the statements from the actuary but don't go through the actuary process to recalculate."

The NAIC's Annual Statement Instructions state that:

"The insurer shall require the independent certified public accountant to subject the information included in the Supplemental Schedule of Assets and Liabilities...to the auditing procedures applied in the audit of the current statutory financial statements to determine whether the information is fairly stated in all material respects in relation to the basic statutory financial statements taken as a whole and agrees to the insurer's annual statement filed with the state insurance departments and the NAIC."

No tests were performed, no information was obtained, and no conclusions were reached pertinent to the CPA's examination of the opining actuary's reserve calculations; consequently, the examiners could not ascertain how the CPAs determined the reserves were fairly stated in relation to the statutory financial statements as a whole.

**Note 7 – Contract claims: Life**

**\$ -0-**

The captioned amount is the same as was reported by the Company in its 2004 Annual Statement.

A review of the Company's 2005 Claims Register determined that there were four claims, totaling \$3,450, that were incurred prior to year-end 2004, but were not paid until 2005. The \$3,450 difference was not material for the purposes of this examination; therefore, no changes were made in the financial statements of this report.

The Company's Claims Register for 2002 – 2004 was also reviewed in order to determine if the Company reported an appropriate liability for claims in 2002 and 2003. The review indicated that there were \$450, and \$900, in claims incurred but not paid until after year-end for 2003 and 2004, respectively. The Company reported \$750 in 2002, but no amount in 2003 and 2004. Consequently, the Company did not properly report its claims liability during the three year examination period. In addition, *Exhibit 8* (Part 1-Liability End of Current Year) of the 2003 and 2004 Annual Statements was not completed.

*SSAP No. 55*, paragraph 4, of the NAIC's Accounting Practices and Procedures Manual states that:



"Claims payments and related expense payments are made subsequent to the occurrence of a covered or insured event and, in order to recognize the expense of a covered or insured event that has occurred, it is necessary to establish a liability."

Paragraph 5, of the referenced SSAP stipulates that the future costs considered in determining the liability for unpaid claims include:

"I. Due and Unpaid Claims: Claims for which payments are due as of the statement date..." and

"iv. Incurred But Not Reported Claims: Liability for which a covered event has occurred (such as death, accident, or illness) but has not been reported to the reporting entity as of the statement date."

### **Records deficiencies**

A sample of claims paid subsequent to the examination period was reviewed. Of the 22 items in the sample, the Company was unable to locate 17 applications. As was noted in the previous examination, the applications prior to 1970, were not kept by previous management. The Company only has those applications since it moved to its new location in 1970. The President indicated that she was not with the Company at that time and does not know the location of those applications. It was noted that one of the policies in the sample was issued after 1970, but could not be found.

Twenty-two premium paying policies were also sampled. Applications were not provided for three of 22 items in the sample for the same reason as cited above.

ALA. CODE § 27-27-29(a) (1975) states that:

"Every domestic insurer shall have, and maintain, its principal place of business and home office in this state and shall keep therein complete records of its assets, transactions and affairs in accordance with such methods and systems as are customary or suitable as to the kind, or kinds, of insurance transacted."

### **Note 8 – Amounts withheld or retained by company as agent or trustee    \$2,353**

The referenced liability is the same as was reported by the Company in its 2004 Annual Statement.

In order to determine and verify compliance with Alabama's *Uniform Disposition of Unclaimed Property Act*, including escheatment for checks five years old and matured life benefits, the Company's unclaimed property filings were requested for the examination period. Per the Company's President, there is no unclaimed, abandoned or reportable property, and no filings were made during the three-year period.

ALA. CODE § 35-12-23 (1975) was repealed in May 2004, and replaced by ALA. CODE § 35-12-76 (8)(c) (1975). In accordance with the *Alabama Dormancy Period and Reporting Guide* for ALA. CODE § 35-12-76 (8)(c) (1975), the dormancy period for unclaimed checks and matured life insurance is now three years instead of five years. Insurance companies are required to file annually by November 1st for the accounting period ending June 30th. The ZERO REMITTANCE section of the referenced guide requires the Company to file a "Zero report" even if there is no escheatable property to report. The Company does not file reports in accordance with the *Alabama Disposition of Unclaimed Property Act of 2004* (as mandated under Article 2A, Title 35, Chapter 12, Section 70 – 96, Code of Alabama 1975).

**Note 9 – Asset valuation reserve**

**\$7,555**

The captioned liability is the same as was reported by the Company in its 2004 Annual Statement.

During the review of the Equity Component in the Asset Valuation Reserve (AVR) exhibit, the Company reported \$(16,822) as an unrealized capital loss. No supporting workpapers were provided to evidence how this amount was calculated.

ALA. CODE § 27-27-29(a) (1975) states that:

“Every domestic insurer shall have, and maintain, its principal place of business and home office in this state and shall keep therein complete records of its assets, transactions and affairs...”

**Note 10 – Unassigned funds (surplus)**

**\$191,341**

Unassigned funds (surplus), as determined by this examination, was \$45,000 less than the \$236,341 amount reported by the Company in its 2004 Annual Statement. The following presents a reconciliation of unassigned funds per the Company's filed Annual Statement to that developed by this examination:

Unassigned funds (surplus) per Company	\$ 236,341
--	------------

**Examination increase/(decrease) to assets:**

Total increase/(decrease) to assets	\$ -
-------------------------------------	------

**Examination (increase)/decrease to liabilities:**

Note 6 - Aggregate reserve for life contracts	(45,000)
Total (increase)/decrease to liabilities:	\$ (45,000)

Net Increase/(Decrease)	\$ (45,000)
-------------------------	-------------

Unassigned funds (surplus) per Examination	<u>\$ 191,341</u>
--	-------------------

**CONTINGENT LIABILITIES AND PENDING LITIGATION**

The review of contingent liabilities and pending litigation included an inspection of representations made by Company management, a review CPA workpapers on pending litigation, and a general review of the Company's records and files conducted during the examination, including a review of claims. These reviews did not disclose any items that would have a material effect on the Company's financial condition in the event of an adverse outcome.

The Company reported that there were no lawsuits pending at year-end 2004. Management was not aware of any material contingent liabilities at the examination date and had committed no reserves to cover such liabilities.

**COMPLIANCE WITH PREVIOUS RECOMMENDATIONS**

A review was conducted during the current examination with regard to the Company's compliance with the recommendations made in the previous examination report. This review indicated that the Company had satisfactorily complied with the prior recommendations, with the exception of certain items listed below.

**Loan Committee** – The previous report recommended that members of the loan committee be designated or appointed annually by the Board of Directors in accordance with the Company's By-Laws. A review of Board minutes indicated that

committee members were appointed only in 2003, during the examination period; therefore, the Company did not comply with the prior recommendation in its entirety.

**Service Agreement:** The previous two examination reports recommended that the Company define existing arrangements with its affiliate by executing a written agreement in accordance with ALA. CODE § 27-29-5(a) (1975), which states that all management agreements, service contracts, and cost sharing arrangements “may not be entered into unless the insurer has notified the commissioner in writing of its intention to enter into such transaction at least 30 days prior thereto...and the commissioner has not disapproved it within that period.” The Company did not comply with those recommendations.

**Bonds** – The previous examination recommended that the loan committee or other persons so authorized submit regular reports of approvals of investments to the Board of Directors in accordance with Section 27-41-5, Code of Alabama 1975, as amended. While loans recommended by the committee were submitted to the Board of Directors for approval, all investment transactions, including some loans, were not. ALA. CODE § 27-41-5 (1975), requires that:

“An insurer shall not make any investment or loan, other than loans on policies or annuity contracts, unless the same be authorized, approved or ratified by the board of directors of the insurer or by such committee or person as the board of directors shall expressly authorize. The action of the board of directors, the committee or other persons so authorized, shall be recorded and regular reports thereof shall be submitted to the board of directors.”

At the examination date, the Company did not have any investment in bonds; therefore, a recommendation on investment approval will be included with *Mortgage loans* (see page 36).

**Mortgage loans** – The previous report recommended that the Company disclose information in the “General Interrogatory” of *Schedule B - Part 1*, concerning mortgage loans with overdue interest past 90 days, in accordance with the NAIC’s Annual Statement Instructions. This interrogatory was not completed during the three-year examination period. The mortgage loan inventory, as of December 31, 2004, indicated six loans in this category; therefore, the Company did not comply with the prior recommendation on this matter.

## **COMMENTS AND RECOMMENDATIONS**

The following summary presents the comments and recommendations that are made in the current *Report of Examination*:

### **Committees** – Page 5

**It is again recommended** that the members of the loan committee be designated or appointed annually by the Board of Directors in accordance with Article III, Section 2, of the Company's By-Laws. This is the third examination report to make this recommendation.

### **Holding Company Registration** – Page 6

**It is recommended** that the Company keep dated and executed copies of its Annual Registration Statements in accordance with ALA. CODE § 27-27-29(a) (1975), which requires that: "Every domestic insurer shall have, and maintain...complete records of its assets, transactions and affairs in accordance with such methods and systems as are customary or suitable as to the kind, or kinds, of insurance transacted."

### **Transactions and agreements with affiliates** – Page 8

**It is again recommended** that the Company define existing arrangements with its affiliate, Jordan Funeral Home, by executing a written agreement in accordance with ALA. CODE § 27-29-5(a) (1975), which states that all management agreements, service contracts, and cost sharing arrangements "may not be entered into unless the insurer has notified the commissioner in writing of its intention to enter into such transaction at least 30 days prior thereto...and the commissioner has not disapproved it within that period."

### **Fidelity Bond and Other Insurance** – Page 9

**It is recommended** that the Company obtain at least the minimum amount of fidelity coverage for protection against dishonest or fraudulent acts committed by officers and/or employees in accordance with the guidelines established by the NAIC's Financial Condition Examiners Handbook.

### **Employee and Agent Welfare** – Page 9

**It is recommended** that the Company require all current employees and agents to sign an affidavit concerning the Violent Crime and Law Enforcement Act of 1994 on an

annual basis in order to ensure compliance with US Code, Title 18, Section 1033 (e)(1)(A) and ALA. ADMIN. CODE 482-1-122 (2003). Guideline 1, of the referenced regulation states that “failure to initiate a screening process in an attempt to identify prohibited persons in current or prospective employment relationships may be a factor in determining if a violation of this statute has occurred.”

## **Marketing and Sales**

### **Advertising file – Page 12**

**It is recommended** that the Company maintain all of its advertisements in accordance with Section .10(1) of Ala. Admin. Code 482-1-132 (2005) [*Advertisements of Life Insurance and Annuities Regulation*], which requires: “Each insurer shall maintain at its home or principal office a complete file containing a specimen copy of every printed, published or prepared advertisement of its individual policies and specimen copies of typical printed, published or prepared advertisements of its blanket, franchise and group policies, hereafter disseminated in this state, with a notation indicating the manner and extent of distribution and the form number of any policy advertised. The file shall be subject to inspection by the department. All advertisements shall be maintained in the file for a period of five (5) years after discontinuance of its use or publication.”

### **Advertising Certificate of Compliance – Page 12**

**It is recommended** that the Company file an advertising certificate of compliance in accordance with Section .10(3) of Ala. Admin. Code 482-1-132 (2005), which requires the Company to “file with the commissioner with its annual statement a certificate of compliance executed by an authorized officer of the insurer stating that to the best of his or her knowledge, information and belief the advertisements that were disseminated by or on behalf of the insurer in this state during the preceding statement year, or during the portion of the year when these rules were in effect, complied or were made to comply in all respects with the provisions of these rules and the insurance laws of this state as implemented and interpreted by this chapter.”

## **Claims Payment Practices**

### **Reporting discrepancies – Page 14**

**It is recommended** that the Company maintain its claims registers to include all information concerning those policies presented for payment in accordance with ALA. CODE § 27-27-29(a) (1975), which requires that the Company maintain “complete records of its assets, transactions and affairs...”

### **Claims not purged from reserve listings – Page 15**

**It is recommended** that the Company review its reserve listings and remove or purge those policies for which claims have been presented. ALA. CODE § 27-27-29(a) (1975)

requires that: "Every domestic insurer shall have, and maintain, its principal place of business and home office in this state and shall keep therein complete records of its assets, transactions and affairs in accordance with such methods and systems as are customary or suitable as to the kind, or kinds, of insurance transacted."

#### **Claims files and records documentation – Page 16**

**It is recommended** that the Company maintain more substantial claims files to include proper notice of claim, claim forms, proof of loss, correspondence, etc., in accordance with ALA. ADMIN. CODE 482-1-124-.03(b)1.(2003), which defines the documentation necessary for the proper adjudication of claims.

#### **Accounts and Records – Page 18**

If management intends that its actuary be included as a corporate officer, **it is recommended** that he be elected or appointed in accordance with Article III, Section 2, of the Company's By-Laws. If the Company does not intend that the actuary be recognized as an officer of the corporation, **it is recommended** that his name be removed from the Jurat page of the Quarterly and Annual Statement filings.

**It is recommended** that the Company elect, appoint or designate its actuary annually in accordance with the aforementioned section of the By-Laws, and ALA. ADMIN. CODE 482-1-122-.05(3) (2003), which requires the actuary to be appointed "either directly or by the authority of the board of directors through an executive officer of the Company. The referenced regulation also stipulates that "[t]he company shall give the Commissioner timely written notice of the name, title (and, in the case of a consulting actuary, the name of the firm) and the manner of appointment or retention of each person appointed or retained by the company as an appointed actuary..."

#### **Anti-fraud initiatives – Page 19**

**It is recommended** that the Company establish fraud initiatives in order to advertise, identify, investigate and report fraudulent acts that may occur.

#### **Anti-Money Laundering Requirements – Page 19**

**It is recommended** that the Company comply with Section 352 of the "Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act" (USA PATRIOT Act), and the International Money Laundering Abatement Act and Anti-Terrorist Financial Act of 2001, which require that all financial institutions, including insurance companies, have in place an anti-money laundering program, unless specifically exempt.

### **Mortgage loans: First liens** – Page 23

**It is recommended** that the Company's Board of Directors approve all investment transactions and record such actions in the minutes of its meetings in accordance with ALA. CODE § 27-41-5 (1975), which requires that: "An insurer shall not make any investment or loan, other than loans on policies or annuity contracts, unless the same be authorized, approved or ratified by the board of directors of the insurer or by such committee or person as the board of directors shall expressly authorize. The action of the board of directors, the committee or other persons so authorized, shall be recorded and regular reports thereof shall be submitted to the board of directors." This recommendation was made in the previous examination report under the "Bonds" caption.

**It is recommended** that the Company document the approval of its new mortgage loans in accordance with ALA. CODE § 27-41-5 (1975), which requires that "An insurer shall not make any investment, loan...unless the same be authorized, approved or ratified by the board of directors of the insurer or by such committee or person as the board of directors shall expressly authorize."

**It is recommended** that the Company complete the "General Interrogatory" section of *Schedule B - Part 1*, in accordance with the NAIC's Annual Statement Instructions, specifically that concerning "Mortgages with overdue interest over 90 days and not in process of foreclosure." This recommendation was also made in the previous examination report.

### **Investment income due and accrued** – Page 23

**It is recommended** that the Company report dividends declared on its common stock in Column 10 (Declared but Unpaid) of *Schedule D-Part 2-Section 2*, of the Annual Statement in accordance with NAIC instructions thereto.

### **Net deferred tax asset** – Page 24

**It is recommended** that the Company report its *Net deferred tax asset* on the proper balance sheet line item in accordance with the NAIC's Annual Statement Instructions.

### **Other assets nonadmitted** – Page 24

**It is recommended** that the Company correct its straight-line depreciate calculation to reflect the appropriate balance of *Leasehold improvements* at the statement date.



**It is recommended** that the Company report its policy loans on the balance sheet under the "Contract loans" line item in accordance with the NAIC's Annual Statement Instructions.

**It is recommended** that the Company maintain its files concerning *Loans on personal security* in accordance with ALA. CODE § 27-27-29(a) (1975), which requires the Company to maintain "complete records of its assets, transactions and affairs..."

**It is recommended** that the Company not make "any disbursement of \$25.00 or more unless evidenced by a voucher or other document correctly describing the consideration for the payment and support by check or receipt endorsed or signed by, or on behalf of, the person receiving the money" in accordance with ALA. CODE § 27-27-30(a) (1975).

**It is recommended** that the Company not admit those assets for which there is no present or future economic benefit to the Company in accordance with the requirements of *SSAP No. 4*, of the NAIC's Accounting Practices and Procedures Manual.

#### **Aggregate reserve for life contracts** – Page 25

**It is recommended** that the Company be required to record an additional reserve of \$45,000, as of December 31, 2004, in order to provide for the missing reserve determinants and, further, to record \$45,000 in all future financial statements until such time as the opining actuary is furnished with the correct reserve determinants.

#### **Estimated reserve factor** – Page 26

**It is recommended** that the Company provide the opining actuary with all records that contain the correct issue age, issue date, face amount and plan of insurance in order to insure that the correct reserve amount may be calculated for each policy in force at the valuation date.

#### **Accidental death benefits** – Page 26

**It is recommended** that the Company record all of the reserves computed by the opining actuary, including the accidental death benefit reserves, in its Annual Statement in accordance with Alabama Department of Insurance *Regulation No. 98*, which requires the Company to report the required information in accordance with NAIC instructions thereto.

#### **Actuarial Opinion – Section 7 Exemption** – Page 27

**It is recommended** that future actuarial opinions comply with ALA. ADMIN. CODE 482-1-112 (2004), *Actuarial Opinion and Memorandum*, which does not provide for a Section 7 exemption.

### **Life Insurance Reserve Basis – Page 27**

**It is recommended** that the opining actuary compute the Company's reserves on the basis of the reserve basis stated in the appropriate policy form utilizing the proper mortality table and interest rate.

### **CPA Review of Reserves – Page 27**

**It is recommended** that the Company require that its independent CPAs test the opining actuary's reserve calculations in accordance with guidelines established by the NAIC's Annual Statement Instructions in order to determine that the reserves are "fairly stated in all material respects in relation to the basic statutory financial statements taken as a whole and agrees to the insurer's annual statement filed with the state insurance departments and the NAIC."

### **Contract claims: Life – Page 28**

**It is recommended** that the Company properly report its claim liability in accordance with the NAIC's Annual Statement Instructions, and paragraph 4, of the NAIC's Accounting Practices and Procedures Manual, which states that: "Claims payments and related expense payments are made subsequent to the occurrence of a covered or insured event and, in order to recognize the expense of a covered or insured event that has occurred, it is necessary to establish a liability."

### **Records deficiencies – Page 29**

**It is recommended** that the Company maintain all applications, records and relevant information concerning its insureds in accordance with ALA. CODE § 27-27-29(a) (1975), which requires the Company to keep "complete records of its assets, transactions and affairs in accordance with such methods and systems as are customary or suitable as to the kind, or kinds, of insurance transacted."

### **Amounts withheld or retained by company as agent or trustee – Page 29**

It is recommended that the Company file the appropriate forms concerning unclaimed property with the Alabama State Treasurer's office in accordance with the *Alabama Disposition of Unclaimed Property Act of 2004* (as mandated under Article 2A, Title 35, Chapter 12, Section 70-96, Code of Alabama 1975). In accordance with the *Alabama Dormancy Period and Reporting Guide* for ALA. CODE § 35-12-76 (8)(c) (1975), the dormancy period for unclaimed checks and matured life insurance is now three years. Insurance companies are required to file annually by November 1st for the accounting period ending June 30th. The ZERO REMITTANCE section of the referenced guide requires the Company to file a "Zero report" even if there is no escheatable property to report.

**Asset valuation reserve** – Page 30

**It is recommended** that the Company provide all supporting documentation for amounts reported in its Asset valuation reserve exhibit. ALA. CODE § 27-27-29(a) (1975) requires that: “Every domestic insurer shall have, and maintain, its principal place of business and home office in this state and shall keep therein complete records of its assets, transactions and affairs...”

**SUBSEQUENT EVENTS**

The review of events subsequent to the December 31, 2004 examination date did not reveal anything material in amount, or noteworthy in nature.

## CONCLUSION

Acknowledgement is hereby made of the courteous cooperation extended by all persons representing the Company during the course of the examination.

The customary insurance examination procedures, as recommended by the National Association of Insurance Commissioners, have been followed to the extent appropriate in connection with the verification and evaluation of assets and the determination of liabilities.

In addition to the undersigned, Harland A. Dyer, ASA, MAAA, FCA, Consulting Actuarial Examiner; representing the Alabama Department of Insurance, participated in this examination of *Jordan Funeral & Insurance Company, Inc.*

Respectfully submitted,

A handwritten signature in cursive script, reading "Anne L. Ward", is written over a horizontal line.

Anne L. Ward, CFE  
Examiner-in-Charge  
State of Alabama  
Department of Insurance

August 11, 2006